

Explanation of the 5.9 Tax Plan

The 5.9 Income Tax Reduction will be phased-in over two years.

The first year, beginning Jan. 1, 2020, will see the traditional, six-rate upper income bracket eliminated, and replaced with a four-rate bracket of 2%, 4%, 5.9% and 6.6%. In this phase, we will consolidate brackets, and reduce the top marginal tax rate from 6.9% to 6.6%. We will also reduce the top marginal tax rate in the middle-income bracket from 6.0% to 5.9%. The fiscal impact of this phase will be \$51.2m. This cost will be split between two state fiscal years, with \$25.6m cuts in FY2020 and FY2021.

The second year, beginning Jan. 1, 2021, will reduce the top marginal tax rate from 6.6% to 5.9%. The fiscal impact of this second phase will be \$45.8m. The impact will be spread across two fiscal years, FY2021 and FY2022.

How can we drop the top rate to 5.9% for \$97m when making the same cut using the traditional bracket would have cost twice as much (\$181m)?

- The 2-4-5.9 plan will impose marginally higher rates of tax on the first \$22,500 of income which is reported by upper income taxpayers. This increased income offsets the total cost of the plan. As compared to plan which would simply cut the top marginal rate, the 5.9 plan allows the state to reach a lower tax rate in a manner that is fiscally prudent.

Does anybody pay more under this plan?

- No. This is for two reasons – first, the 2-4-5.9 plan help to smooth over “cliffs” in the tax brackets, which would otherwise punish those taxpayers whose increased income pushes them from the middle- to the upper-income bracket. In addition, state income tax bracket adjustments, which were adopted as part of the middle-class tax cut, will provide additional relief to those taxpayers at the lower end of the upper income tax table.

Does this preclude us from making future reductions in individual income tax rates?

- No. The proposed plan leaves open the potential for additional rate decreases in the future. The Governor has repeatedly said his goal is to reduce the state’s top rate to 5.0%